



MEMORANDUM

To: Members of the Investment Committee  
California Public Employees' Retirement System

Date: June 13, 2011

From: Pension Consulting Alliance, Inc. (PCA)

**RE: Statement of Investment Policy for Real Assets – Real Estate Program**

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In our capacity as Real Estate Consultant to the Board for Real Estate, Pension Consulting Alliance, Inc. (PCA) has reviewed the proposed modifications to the above referenced Real Asset Policy for the Real Estate Program. These modifications are primarily driven by the adoption of a new strategic plan by the Investment Committee on February 14, 2011 and discussions with the Investment Committee on May 16, 2011.

The new real estate strategic plan will focus investment on stabilized, cash-oriented and leased properties. PCA believes the proposed real estate policy is aligned with objectives of the strategic plan adopted by the Investment Committee. The new real estate policy will have interim limits on Key Policy Parameters, which include risk classification exposure, (Core, Value Add and Opportunistic), Loan-To-Value ratios, debt service coverage ratios and geographic exposure amongst others. The first set of interim limits on Key Policy Parameters (which are much broader) will last for two years. On July 1, 2013, the Key Policy Parameter limits will automatically revert to more stringent ones that are closer aligned with the objectives in the role of real estate and strategic plan. Finally, on July 1, 2015, the over-arching limits that were already presented to the Investment Committee will be in effect. In essence, this gives Staff a four-year window to shift the real estate portfolio towards one that is cash-flow oriented. PCA believes this is an adequate amount of time, and allow for optimization of the current holdings in real estate that may not fit the new strategy.

Additionally, quarterly reports will be provided by both the Board Consultant and Staff in order to keep the Investment Committee apprised of the progress in shifting the real estate portfolio.

The prior policy document, which was adopted in 2009, consolidated and replaced nearly two dozen policies loosely organized by investment type and structure.

These proposed modifications are part of the strategic plan implementation. There will also be required modifications to the Staff Internal Procedures Manual. The interdependency of these documents with the strategic plan should lead to a more rigorous focus on risk management and oversight functions within the real estate portfolio.

Based on our review of the current proposed modifications and other supporting documentation, PCA concurs with the proposed modifications to the Statement of Investment Policy for Real Assets – Real Estate Program.



Respectfully,



Paul Mouchakka

Managing Director